

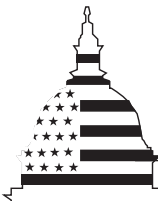


Report to Congressional
Subcommittees

March 2001

AGRICULTURAL TRADE

Impacts of the Andean Trade Preference Act on Asparagus Producers and Consumers



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Abstract U.S. asparagus imports increased by over 215 percent in the 1990s and now comprise nearly one-half of the asparagus consumed in the United States. Peru is the second largest source of imported asparagus and benefits from duty-free treatment under the Andean Trade Preference Act (ATPA) of 1991, as amended. 1 Asparagus imported from Peru accounted for 34 percent of U.S. imports in 1999. ATPA was designed to promote the production of non-drug-related crops and to increase the economic development of four South American countries involved in the drug trade, including Peru. 2 During the 1990s, Peru substantially increased its production of asparagus and became a major exporter of frozen asparagus, complementing its already strong position in the canned market. Imports of Peruvian asparagus have made fresh asparagus available in the United States from August through December months that domestic fresh asparagus had generally been unavailable.		Monitoring Agency Acronym
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Abbreviations

ATPA	Andean Trade Preference Act
GAO	General Accounting Office
ITC	U.S. International Trade Commission
NAFTA	North American Free Trade Agreement
USDA	U.S. Department of Agriculture
USTR	U.S. Trade Representative



United States General Accounting Office
Washington, DC 20548

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Congressional Subcommittees

U.S. asparagus imports increased by over 215 percent in the 1990s and now comprise nearly one-half of the asparagus consumed in the United States. Peru is the second largest source of imported asparagus and benefits from duty-free treatment under the Andean Trade Preference Act (ATPA) of 1991, as amended.¹ Asparagus imported from Peru accounted for 34 percent of U.S. imports in 1999. ATPA was designed to promote the production of non-drug-related crops and to increase the economic development of four South American countries involved in the drug trade, including Peru.² During the 1990s, Peru substantially increased its production of asparagus and became a major exporter of frozen asparagus, complementing its already strong position in the canned market. Imports of Peruvian asparagus have made fresh asparagus available in the United States from August through December—months that domestic fresh asparagus had generally been unavailable.

ATPA expires in December 2001, and legislation to extend the act is likely to be proposed in 2001. While imports of fresh and frozen asparagus and domestic production of fresh asparagus have increased, the production of domestic processed (canned and frozen) asparagus has declined. For example, the value of U.S. fresh asparagus production increased from \$117 million in 1990 to \$172 million in 2000. However, the value of processed asparagus declined from \$60 million to \$44 million during this period. Industry representatives attribute this decline to increasing Peruvian imports.

In this context, the Subcommittee on Agriculture, Rural Development and Related Agencies, Senate Committee on Appropriations, and the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, House Committee on Appropriations, asked us to (1) review the impact that asparagus imported from Peru under ATPA has had on domestic asparagus producers and

¹Mexico is the leading source of imported asparagus and benefits from reduced tariffs under the North American Free Trade Agreement. Tariffs under the Agreement are shown in app. II.

²ATPA covers Bolivia, Colombia, Ecuador, and Peru. These countries are the source of coca plants from which most of the world's cocaine is produced or are major transit areas for cocaine.

consumers, (2) review ATPA's likely impact on domestic asparagus producers and consumers if the act is reauthorized in December 2001, and (3) describe the remedies available to domestic industries adversely affected by imports under ATPA.

Results in Brief

The Andean Trade Preference Act is estimated to have displaced between 2 to 8 percent of the total value of domestic fresh asparagus production from what it would have been without the act, according to the U.S. International Trade Commission's most recent study.³ U.S. consumers, however, benefited from the availability of fresh asparagus from Peru during the months when fresh asparagus is not generally available from domestic producers—August through December. While the supply of fresh asparagus from imports has increased since the trade act became law, consumer demand has been strong and prices have risen. In addition, an apparent increase in consumer preference for fresh asparagus contributed to a downward shift in the domestic demand for processed asparagus. For example, our analysis shows that production for processing decreased from 42 percent of domestic production in 1990 to 34 percent in 2000. Most of the decline in the production of processed asparagus occurred in Washington, one of the two states that produce the majority of canned and frozen asparagus.

If the Andean Trade Preference Act is reauthorized, domestic producers of asparagus and, in particular, asparagus for processing, will likely face continued displacement, but consumers can expect continued benefits from the year-round availability of fresh asparagus. However, some of this displacement will likely occur even if the trade act is not reauthorized and the normal tariff is restored—5 percent in 2 of the 5 months when the majority of Peru's fresh asparagus is imported and 21.3 percent in the other 3 months. U.S. consumers prefer fresh asparagus and therefore will likely continue to consume it instead of processed asparagus, and Peru has advantages in climate and labor costs that should enable it to continue its exports. In addition, if the trade act is not reauthorized, consumers would likely have decreased availability of fresh asparagus from Peru and pay higher prices to the extent that tariff increases reduce Peruvian asparagus imports and, hence, total asparagus supplies. U.S. asparagus

³The International Trade Commission is an independent, quasi-judicial federal agency that, among other responsibilities, provides the President and Congress with objective trade expertise and determines the impact of imports on U.S. industries. The Commission's most recent study is *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution* (USITC Publication 3358, Sept. 2000).

producers also face increasing competition from Mexican imports because of declining tariffs under the North American Free Trade Agreement. In the longer term, a new trade agreement called the Free Trade Area of the Americas, currently being negotiated, could go beyond both the North American Free Trade Agreement and the Andean Trade Preference Act by creating a duty-free trade zone in the Western Hemisphere for many products, including asparagus.

Relief measures are available under U.S. trade law to industries that are harmed as a result of foreign imports. Domestic industries can petition the U.S. International Trade Commission to investigate whether increased imports have caused them serious injury or threat of serious injury. If the Commission finds serious injury, it may recommend relief options to the President, including increased tariffs or quotas on imports. If the petition involves a perishable agricultural product, U.S. trade law and the Andean Trade Preference Act allow the petitioning industry to request provisional relief, pending completion of the Commission's investigation. According to asparagus industry representatives, asparagus producers have not pursued these remedies because they regard the filing of a petition and pursuit of relief to be too costly for such a small industry. Instead, in its comments to the Office of the U.S. Trade Representative on the operation of the Andean Trade Preference Act, the industry is seeking to remove asparagus from eligibility under the trade act.⁴

In commenting on a draft of our report, the U.S. Department of Agriculture's Economic Research Service, staff from the U.S. International Trade Commission, and the U.S. Trade Representative generally agreed with the substance of the report and provided technical and clarifying comments that we have incorporated as appropriate. The Department of Agriculture's Foreign Agricultural Service stated that (1) our draft did not adequately address the rationale for including asparagus imports under the Andean Trade Preference Act and (2) the data we used in the report were not current. While the scope of our review did not specifically include an analysis of the rationale for providing duty-free status for asparagus under the trade act, we did address the use of asparagus to promote Peru's economic development. Additionally, we updated the report to reflect recently released production data for 2000.

⁴The Office of the U.S. Trade Representative is a cabinet agency responsible for developing and coordinating U.S. international trade policy.

Background

Asparagus is a perennial crop that has a relatively long life expectancy of up to 20 years in commercial plantings. Since the crop is not usually harvested for the first 3 years, asparagus production represents a significant long-term investment for growers. In addition, since the time from planting to the first harvest takes 3 years, producers cannot quickly increase production in response to market demand. While asparagus is a native of temperate regions, its cultivation is most successful in locations where either extreme temperature or drought stops the growth of the plant, providing it with a rest period. Asparagus is produced and sold either as fresh, uncooked whole spears or processed (heat-treated canned or frozen) whole spears or cut pieces.

Asparagus is a labor-intensive, high-value vegetable crop. For example, according to the U.S. Department of Agriculture (USDA), in 2000, the season-average shipping-point price for fresh asparagus was \$1.14 per pound.⁵ In comparison, the price for the second and third highest value vegetables—artichokes and fresh market snap beans—was \$0.64 and \$0.42 per pound, respectively.

In 2000, the United States produced 227 million pounds of asparagus having a value of about \$217 million.⁶ The majority of the asparagus produced was green asparagus for the fresh market—66 percent was fresh, while 34 percent was processed (about 28 percent was for canning and 6 percent for freezing). Figure 1 shows the annual quantity of domestic production from 1990 to 2000.

⁵The season-average shipping-point price includes the amount received by producers and some costs of packing and shipping. Therefore, actual prices received by producers were less.

⁶In comparison, the value of U.S. produced tomatoes and green peas is about \$1.8 billion and about \$129 million, respectively.

Figure 1: Quantity of Fresh and Processed Asparagus Production in the United States, 1990-2000



Source: USDA.

As shown in figure 1, the production of fresh asparagus in the United States trended downward until 1995, when it reached a low in part due to poor weather in California. Since then, production has been increasing. In contrast, the production of asparagus for processing has been steadily declining.

The major commercial asparagus-producing states are California, Washington, and Michigan. California, the most important state for fresh production, has a harvest season from January through May. While Washington and Michigan produce some asparagus for the fresh market, the majority of their production is for the processed market. Production from Michigan occurs from May through June and Washington from May through July. In recent years, Washington has begun shifting some production from asparagus for processing to fresh asparagus, although

doing so is costly for producers.⁷ Thus, when the three states are considered, domestically produced fresh asparagus is available from January through July. At other times of the year, only canned and frozen production is available from domestic sources.

In recent years, imports have accounted for a growing proportion of the U.S. fresh asparagus supply and, in 1999, represented 57 percent of fresh asparagus consumption. In 1999, over 90 percent of total U.S. asparagus imports were of fresh asparagus. The growth in imports has been made possible, in part, by the Andean Trade Preference Act and the North American Free Trade Agreement (NAFTA).

ATPA, which was signed into law in December 1991, eliminates or reduces U.S. tariffs on eligible products from four Andean countries—Bolivia, Colombia, Ecuador, and Peru.⁸ ATPA's primary goal is to promote broad-based economic development in these Andean countries and to develop viable economic alternatives to coca cultivation and cocaine production by offering Andean products broader access to the U.S. market. The President proclaimed preferential duty treatment for Peru in 1993. These preferences are scheduled to end effective December 4, 2001.

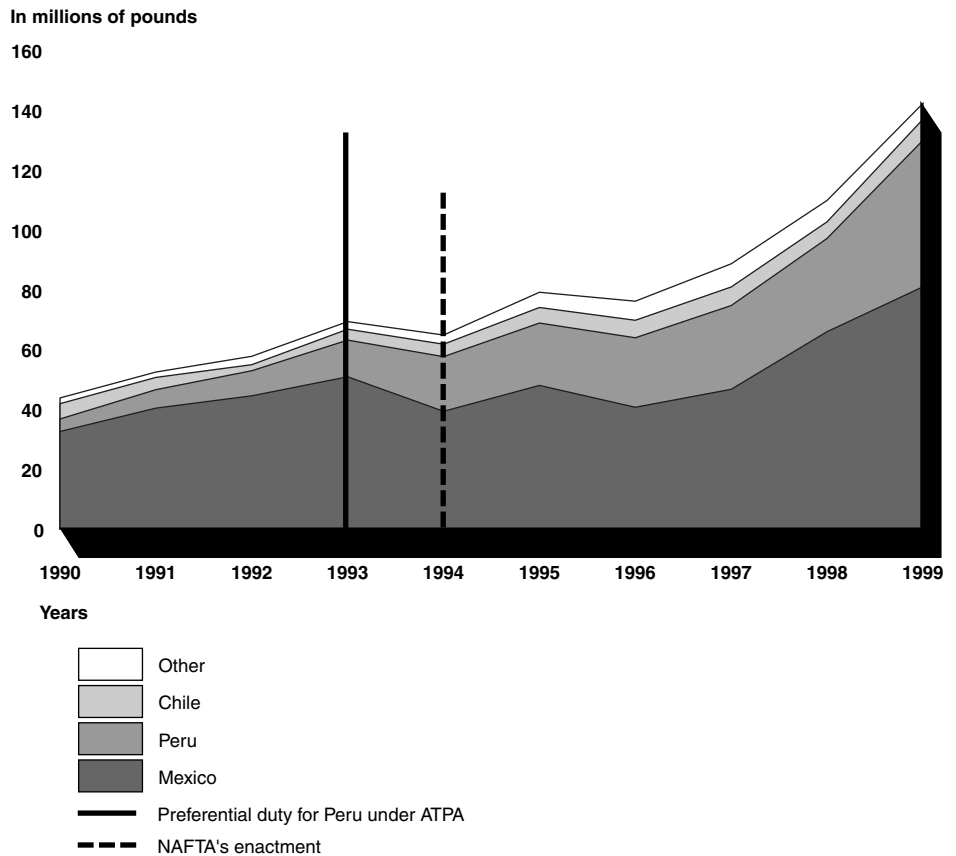
NAFTA, which was ratified by the Congress in 1993 and implemented in January 1994, created a free trade area between Canada, Mexico, and the United States. NAFTA provides for the gradual elimination of tariffs—from as high as 25 percent on fresh asparagus—and other trade barriers on most goods, over a 10- to 15-year period.

As shown in figure 2, asparagus imports were increasing prior to ATPA's and NAFTA's enactment and have continued to increase since that time. For example, imports grew from 44 million pounds in 1990 to 142 million pounds in 1999—an average annual rate of increase of 14 percent, whereby Mexico and Peru provided most of the increase.

⁷To sell fresh market asparagus, producers must use different harvesting techniques; develop new markets; and have access to packing, chilling, and shipping facilities not required for processed asparagus.

⁸Peru accounted for over 90 percent of total U.S. imports of fresh asparagus from ATPA countries in 1999.

Figure 2: U.S. Imports of Fresh Asparagus by Country, 1990-99



Source: GAO's analysis of USDA's data.

According to information from the Peruvian Asparagus Institute,⁹ increases in asparagus production, assisted by the implementation of ATPA, have resulted in making asparagus Peru's second largest export crop, after coffee. Peru has also developed a modern frozen asparagus industry and has rapidly increased exports of this product to the United States and U.S. frozen export markets, such as Japan. Asparagus accounted for 14.1 percent of Peru's agricultural exports and resulted in employment for over 20,000 Peruvians in 1999.

⁹The Peruvian Asparagus Institute is a nonprofit trade association representing the Peruvian asparagus industry.

Asparagus Imports Under ATPA Have Displaced Some Domestic Production, but Consumers Have Benefited From Increased Availability

According to the U.S. International Trade Commission's (ITC) 1999 study, ATPA has displaced an estimated 2 to 8 percent of the total value of domestic fresh asparagus production from what it would have been without the act. U.S. consumers, however, benefited from the availability of fresh asparagus from Peru during the months when fresh asparagus is not generally available from domestic producers—August through December. In addition, changes in consumer preference contributed to a downward shift in the domestic demand for processed asparagus.

Imports Under ATPA Have Displaced Some Domestic Asparagus Production

Using 1999 data, ITC estimated that the total impact of ATPA's tariff reductions has been a 2- to 8-percent displacement of the total value of U.S. fresh asparagus production by Peruvian imports as consumers substituted asparagus imported from Peru for domestically produced product. According to ITC, asparagus and cut flowers are the two industries experiencing potentially significant displacement under ATPA.¹⁰

ITC measured the impact of tariff reductions under ATPA by comparing estimated market conditions under full tariff treatment versus actual market conditions under duty-free entry.¹¹ A decrease in the price of imported asparagus caused by tariff reductions results in the substitution of imported asparagus for domestically produced asparagus, but the displacement is not one for one because of various reasons, such as a retailer's preference for marketing domestically produced product.¹²

¹⁰Each year since 1994, ITC has issued a report assessing the impact of ATPA. In each report, ITC estimated the total impact of the trade act using data for that year. The range reported by ITC is determined by the degree to which imported production is substituted for domestic. ITC considers displacement of 5 percent or more to be potentially significant. To the extent that ITC estimates a range of displacement that spans above and below the 5-percent threshold, estimated displacement may or may not be significant each year.

¹¹ITC conducted a comparative static analysis in which the Commission measured the welfare effects of the ATPA tariff reductions.

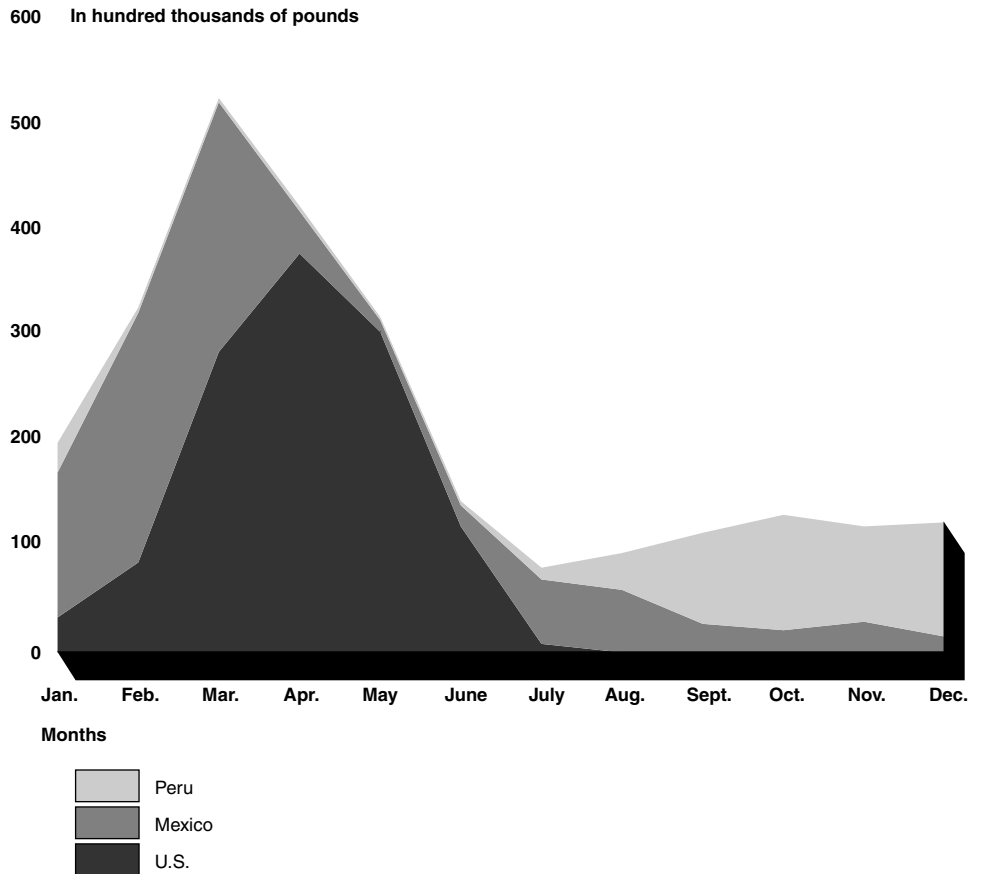
¹²The amount of the decrease depends on the elasticity of substitution between the domestic and imported product.

U.S. Consumers Benefited From Imports Under ATPA as Consumption Shifted to Fresh Asparagus

Consumers have benefited from ATPA because fresh asparagus is now available during the months when it is generally unavailable from domestic producers. This increased availability, combined with consumers' preference for fresh asparagus, has contributed to a downward shift in the consumption of processed asparagus.

Figure 3 shows that the U.S. primarily produces and ships fresh asparagus during January through July. In contrast, imports from Peru occur nearly year-round, including months when U.S. fresh production is unavailable. As the figure shows, the majority of imports from Peru occur from August through December, when there is virtually no U.S. fresh production. Only canned or frozen asparagus is available from domestic sources during this time.

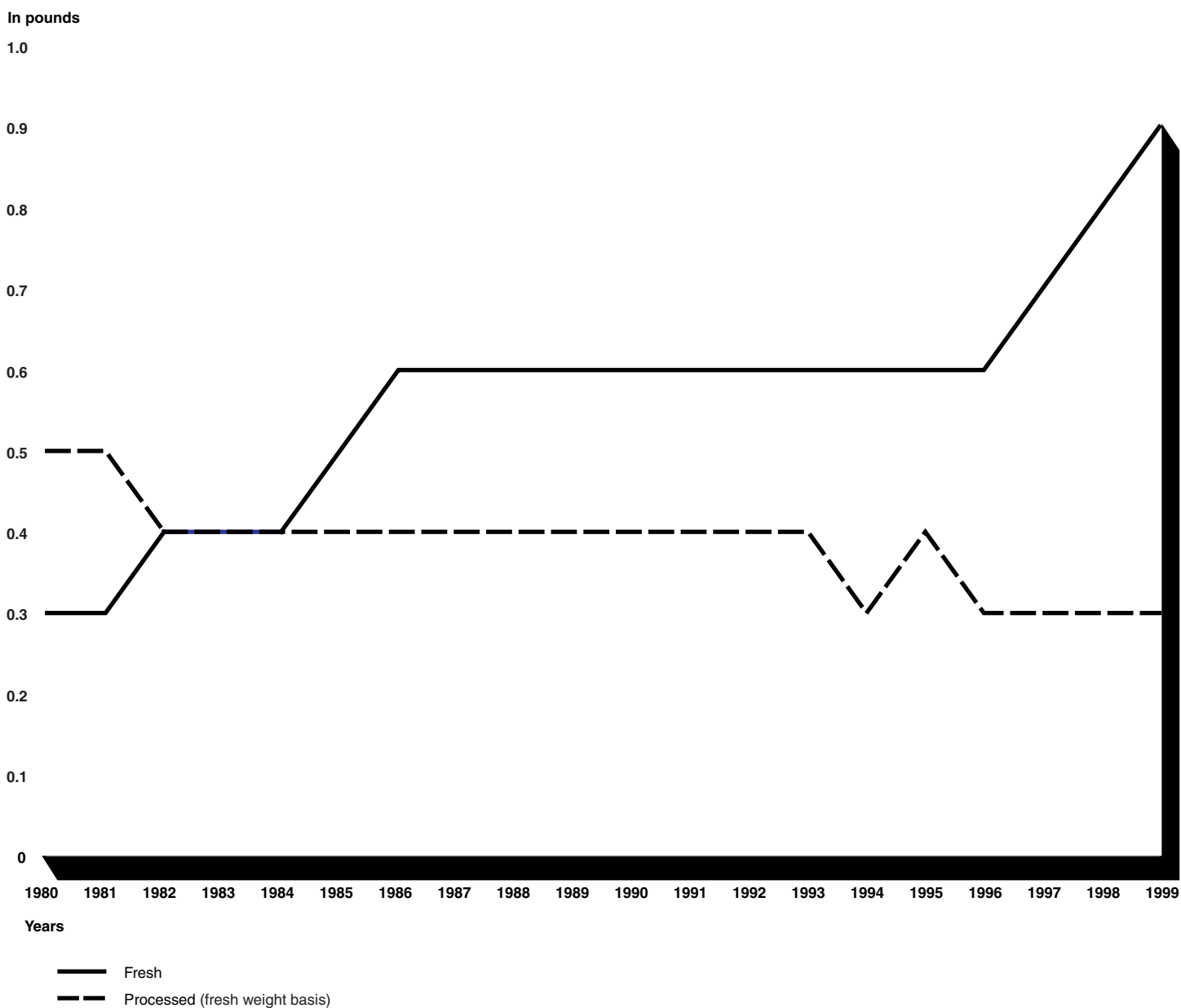
Figure 3: Shipments of Domestic Fresh Asparagus and Imports From Mexico and Peru, 1999



Source: GAO's analysis of USDA's data.

Fresh asparagus from Peru is available, in part, because the elimination of tariffs reduced the price of Peruvian asparagus in the United States. While imports from Peru have increased the supply of fresh asparagus in the United States, demand has been strong, as demonstrated by the increased per capita consumption of fresh asparagus.

Figure 4: Per Capita Consumption of Fresh and Processed Asparagus, 1980-99



Source: USDA.

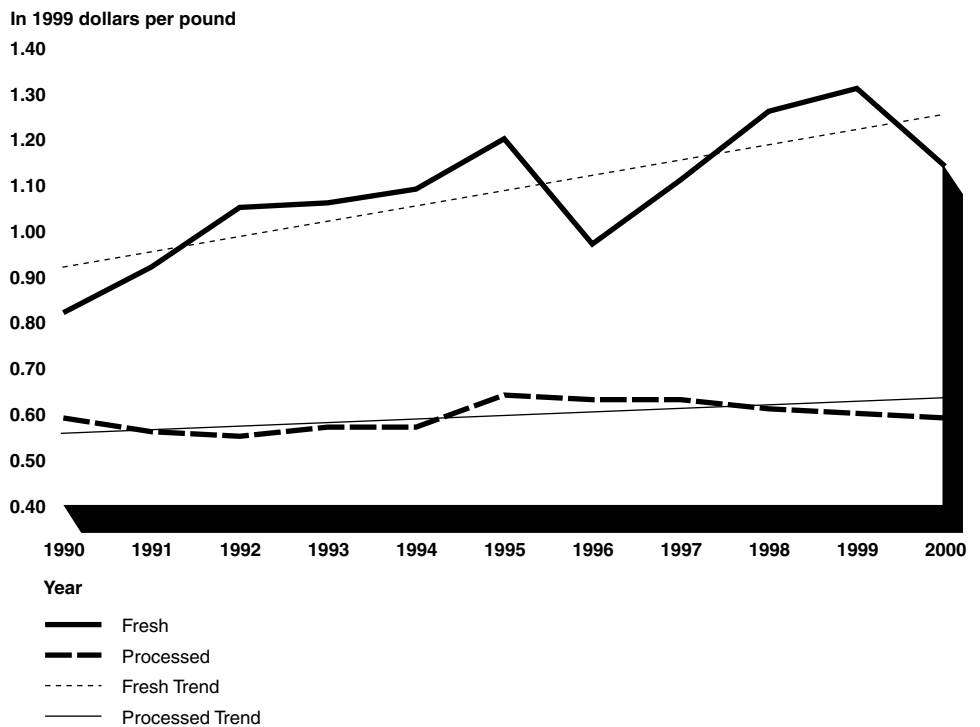
As figure 4 shows, in the mid-1980s, the per capita consumption of asparagus shifted from processed to fresh asparagus, demonstrating consumers' preference for the latter. This shift in consumer preference

accelerated in the mid-1990s, as fresh asparagus became available on a year-round basis.

The shift in the per capita consumption of asparagus is part of the general trend toward increased consumer preference for fresh vegetables. In addition, the consumption of asparagus, which is a high-value product, is particularly responsive to increases in personal income, according to econometric studies. In the latter half of the 1990s, real disposable personal income increased by an average annual rate of about 3 percent.

The increase in fresh asparagus consumption has helped keep prices trending upward despite the increase in supply from imports. In contrast, shifts in preference and the declining consumption of processed asparagus have kept prices for processed asparagus relatively flat, as shown in figure 5.

Figure 5: Season-Average Prices for Fresh and Processed Asparagus, 1990-2000



Note: These prices represent season-average shipping-point prices that include some packing and processing costs. Actual prices received by producers are unavailable. Prices have been inflation adjusted to 1999 purchasing power.

Source: GAO's analysis of USDA's data.

The decline in the consumption of processed asparagus particularly affects producers in Michigan and Washington, the two states that produce the majority of frozen and canned asparagus. For example, processed asparagus accounted for approximately 86 percent and 68 percent of the production of that crop in Michigan and Washington, respectively, in 2000. Our analysis shows that processed asparagus decreased from 42 percent of domestic production in 1990 to 34 percent in 2000. Most of the decline occurred in Washington.

Impacts on Producers and Consumers Likely to Continue With or Without ATPA

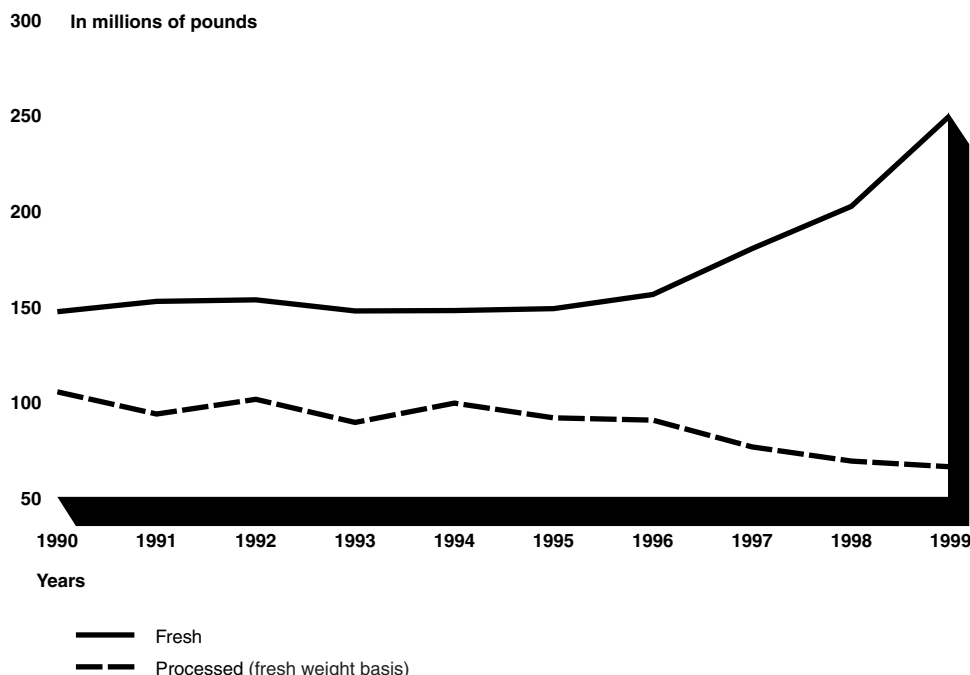
If ATPA is reauthorized, the producers of asparagus and, in particular, asparagus for processing will likely face some continued displacement from imports, but consumers can expect continued benefits from the year-round availability of fresh asparagus. However, some of this displacement will likely occur even if ATPA is not reauthorized and the normal tariff is imposed: 5 percent in 2 of the 5 months when the majority of Peru's asparagus is imported, and 21.3 percent in the other 3 months. This is because U.S. consumers prefer fresh asparagus, which domestic producers cannot supply in some months, and because of Peru's advantages in climate and labor costs. In addition, consumers would likely face decreased availability and pay higher prices than they would otherwise to the extent that the increase in tariff creates a reduction in imports from Peru and hence an overall reduction in asparagus supply. U.S. asparagus producers will also face increasing competition from Mexican imports under the North American Free Trade Agreement. In the longer term, the Free Trade Area of the Americas, currently being negotiated, could go beyond both NAFTA and ATPA by creating a duty-free trade zone in the Western Hemisphere for many products, including asparagus.

Producers Face Continued Displacement, and Consumers Benefit From the Increased Availability of Fresh Asparagus if ATPA Is Reauthorized

If ATPA is reauthorized, U.S. asparagus producers, particularly of processed asparagus, will likely face some continued displacement from imports because the removal of tariffs on imports under ATPA allows fresh asparagus to be imported year-round. Since consumers tend to prefer fresh rather than processed asparagus when it is available, this displacement will likely continue.

Consumers can expect continued benefits from this year-round availability of fresh asparagus. Peruvian asparagus enters the United States when domestic production is low, resulting in an increased supply of fresh asparagus in the marketplace. This extended product availability is believed to be partly responsible for increases in the consumption of fresh asparagus and declines in the consumption of processed asparagus. As shown in figure 6, the consumption of fresh asparagus reached 250 million pounds in 1999—representing a 103-million-pound, or 70-percent, increase since 1990. In contrast, the consumption of processed asparagus declined by 39 million pounds, or 37 percent, since 1990.

Figure 6: U.S. Consumption of Fresh and Processed Asparagus, 1990-99



Source: USDA.

Producers Face Continued Displacement, and Consumers Will Have Decreased Availability and Higher Prices if ATPA Is Not Reauthorized

Peruvian asparagus will likely remain a strong competitor for domestic producers even if ATPA is not reauthorized and the normal tariff is restored—5 percent in 2 of the 5 months when the majority of Peru’s fresh asparagus is imported and 21.3 percent in the other 3 months.¹³ This is because U.S. consumers have expressed a preference for fresh rather than processed asparagus when it is available in the marketplace. In addition, Peru’s climate allows for the year-round production and export of fresh asparagus. Peru also enjoys relatively lower labor costs for this labor-intensive crop.

¹³The Normal Trade Relations (formerly known as Most Favored Nation) tariff rate is 21.3 and 14.9 percent for fresh and processed asparagus, respectively. A 5-percent tariff is applied to fresh asparagus, not reduced in size, that is shipped by air from September 15 through November 15—2 of the 5 months when Peru has substantial exports to the United States. Peruvian asparagus is not eligible for reduced tariffs under the Generalized System of Preferences because the U.S. Trade Representative considers this product to be competitive in our market.

These advantages have allowed Peru to become the world's second largest producer of asparagus over the past decade and have given Peru the potential for increasing exports in the future.¹⁴ In addition, Peruvian growers began a marketing promotion program in 2000 to stimulate U.S. consumers' purchases of fresh asparagus.

Without ATPA, consumers would likely have decreased year-round availability of fresh asparagus and pay higher prices to the extent that the increase in tariff creates a reduction in imports from Peru. Since fresh asparagus would not be readily available from other foreign producers, supplies would decrease, and consumer prices would likely rise.

Producers Face Increasing Competition From Other Trade Agreements

Regardless of what happens with the reauthorization of ATPA, U.S. asparagus producers will face increasing competition from other current and future trade agreements. In the near term, Mexico continues to be the most important source of imported fresh asparagus. Mexico's advantage of lower transportation costs to U.S. markets is believed to offset any production advantages in ATPA countries. In addition, Mexico's sizable shipments to the United States have occurred despite relatively high tariffs. As tariff rates under NAFTA are phased out through 2008, asparagus imports from Mexico will become even more competitive.

Over the longer term, negotiations are under way to create a free trade zone among the 34 democracies of the Western Hemisphere. The Free Trade Area of the Americas could create a duty-free trade zone more extensive than both ATPA and NAFTA, which would result in the elimination of tariffs on many products, including asparagus, according to the U.S. Trade Representative.

China, the world's largest producer of asparagus, has been granted normal trade relations trading status by the United States, resulting in lower tariffs. As a result, China has begun increasing its exports of processed asparagus to the United States.

¹⁴China, Peru, and the United States are the world's top three producers of asparagus, respectively.

Remedies Available to Domestic Industries Under U.S. Trade Law Have Not Been Pursued by Domestic Asparagus Producers

U.S. trade law contains several provisions under which domestic industries may seek relief from injury caused by foreign imports.¹⁵ According to asparagus industry representatives, asparagus producers have not pursued relief under any of these provisions because the cost of bringing a case to ITC is considered too burdensome for such a small industry. Alternatively, industry representatives have proposed that the Andean Trade Preference Act be amended to remove duty-free treatment for asparagus when an ATPA country is deemed to be economically competitive with U.S. producers.

Under section 201 of the Trade Act of 1974, domestic industries can petition ITC to investigate whether increased imports have caused them serious injury or threat of serious injury. Upon receiving a petition, ITC conducts an investigation to substantiate the allegation.¹⁶ ITC's investigation is designed to determine whether a product is being imported into the United States in such increased quantities as to be a substantial cause of serious injury or threat of serious injury to the domestic industry. In making its determination, the Commission must consider all relevant economic factors, including whether (1) productive facilities in the industry have been significantly idled, (2) a significant number of firms have been unable to operate at a reasonable level of profit, and (3) significant unemployment or underemployment has occurred within the industry. ITC also considers, among other things, whether there is a decline in sales or market share; a higher and growing inventory of the product; and a downward trend in production, profits, wages, productivity, or employment in the industry. In addition, the Commission must consider imports from all sources. There is no requirement that the increases in imports or serious injury to a domestic industry be attributable to an unfair trade practice.

If ITC makes an affirmative injury determination, it is required to recommend to the President an action that would be most effective in addressing the injury. Recommended actions may include increased tariffs, quotas, trade adjustment assistance to workers (such as job

¹⁵Sections 201 to 204 of the Trade Act of 1974 (19 U.S.C. 2251-2254) and section 204 of the Andean Trade Preference Act of 1991 (19 U.S.C. 3203(e)).

¹⁶ITC conducts investigations upon receipt of a petition from an entity—including a trade association, firm, certified or recognized union, or group of workers—that is representative of an industry, upon the request from the President or the U.S. Trade Representative, upon resolution of the U.S. House Committee on Ways and Means or the U.S. Senate Committee on Finance, or upon its own motion.

training), or a combination of these measures.¹⁷ As part of its recommendation, ITC must also state whether and to what extent its findings and recommendations apply to imports from ATPA countries. Following the receipt of ITC's recommendations, the President may take one of several actions. These include taking (1) the action recommended by ITC, (2) other action deemed appropriate, or (3) no action. However, the President cannot take action that is solely in the form of suspension of duty-free treatment for ATPA imports unless the Commission's investigation has found that the serious injury or threat of serious injury to the domestic industry resulted from the duty-free treatment. In any event, the President is required to report to the Congress what action, if any, he intends to make. If the President takes action that differs from ITC's recommendation or takes no action, the Congress may enact a joint resolution, which directs that he proclaim the action recommended by ITC.

The trade act also authorizes ITC to make preliminary determinations and recommendations to the President for provisional relief in two situations. Under the first situation, an industry producing a perishable agricultural commodity that has already petitioned ITC and is undergoing a section 201 investigation, may file a request with the U.S. Trade Representative for the monitoring of imports. The U.S. Trade Representative may then request that ITC monitor imports. If an ITC monitoring investigation has been under way for at least 90 days, then the industry producing the domestic product may request, in a section 201 petition with respect to imports of the monitored product, that a remedy be applied on a provisional basis, pending completion of a full section 201 investigation and presidential review. ITC would have 21 days to make a recommendation concerning provisional relief, and the President would have 7 days to make a decision. Any provisional relief granted by the President upon ITC's recommendation would generally be in the form of increased tariffs.

Under a second situation, an industry filing a section 201 petition may request provisional relief if it believes critical circumstances exist. Such circumstances exist when clear evidence shows that increased imports are a substantial cause of serious injury or threat of serious injury to the domestic industry and delay in taking action would cause damage that would be difficult to repair. ITC would have 60 days to make a critical

¹⁷ ITC may also recommend that the President initiate international negotiations to address the underlying cause of the increase in imports or otherwise to alleviate the injury or threat or implement any other action authorized under law that is likely to facilitate a positive adjustment to import competition.

circumstances determination and make a recommendation, and the President would have 30 days to decide what, if any, action to take. Such an action would generally be in the form of a tariff increase.

In addition, ATPA specifically provides that an industry filing a section 201 petition with ITC can then also petition the Secretary of Agriculture for provisional relief. Under the ATPA special emergency relief provision, the Secretary of Agriculture and the President are authorized to make speedier determinations when an investigation of a perishable agricultural product under the trade act is ongoing. If the Secretary of Agriculture's determination is affirmative, the President may temporarily withdraw the product's duty-free treatment or take no action. No preexisting monitoring investigation by ITC is required. The Secretary and President have a total of 21 days to make their final determination. The emergency action would be rescinded upon a negative determination of ITC's investigation, a presidential determination of changed circumstances, or the decision to take another relief action.

To date, asparagus producers have not petitioned ITC for an investigation based on allegations of serious injury from imports under ATPA. According to industry representatives, the cost associated with preparing a case is burdensome, especially for such a small industry. Alternatively, industry representatives, in comments submitted to the U.S. Trade Representative on the operation of ATPA in 1997, have requested that the law be amended to remove duty-free treatment for asparagus when an ATPA country is deemed to be economically competitive with U.S. producers.¹⁸ Without a petition from the industry, the ITC has not initiated an investigation.

Agency Comments

We provided USDA's Economic Research Service and Foreign Agricultural Service, staff from the U.S. International Trade Commission, and the U.S. Trade Representative with a draft copy of this report for their review and comment. We met with Economic Research Service agricultural economists, including the Team Leader for Fruit and Vegetable Analysis; ITC's staff representing the Offices of External Relations, Economics, Industries, and General Counsel; and U.S. Trade Representative officials, including the Deputy Assistant U.S. Trade Representative for Latin

¹⁸ ATPA requires the President to submit a report to the Congress on the operation of the program every 3 years. The U.S. Trade Representative drafts the report with input from relevant agencies and offices, such as the Department of State, USDA, and ITC, and solicits public comment.

America. They generally agreed with the substance of the report and provided technical and clarifying comments, which we incorporated as appropriate.

In a letter commenting on the report, USDA's Foreign Agricultural Service stated that the report does not adequately address the congressional rationale for providing duty-free access for asparagus imports under ATPA. The Foreign Agricultural Service stated that it does not believe that Peruvian asparagus production provides an alternative economic opportunity for coca producers and workers—the stated purpose for the trade act.

Determining whether ATPA is meeting its intended purpose of providing alternative economic opportunities for coca producers and workers in the four Andean countries was beyond the scope of our review. However, our report does describe how asparagus production has contributed to economic development in Peru.

The Foreign Agricultural Service also commented that the data we used in our draft report did not adequately reflect the current impact of Peruvian asparagus imports on the U.S. market. The 1999 quantity and value of domestic asparagus production data that we used to prepare our draft report were the most current available at the time of our review. Subsequently, in January 2001, USDA's National Agricultural Statistics Service released its *Vegetables 2000 Summary* report. We updated our draft with the production information from that report. The updated information did not alter the results of our analyses.

Appendix III presents the Foreign Agricultural Service's comments on the report and our detailed response.

We conducted our review from September 2000 through February 2001 in accordance with generally accepted government auditing standards. Appendix I discusses our scope and methodology.

Copies of this report are being sent to interested congressional committees; the Honorable Steve Koplan, U.S. International Trade Commission; Ambassador Robert B. Zoellick, U.S. Trade Representative; the Honorable Ann Veneman, Secretary of Agriculture; and other interested parties. We will make copies available to others upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-3841. Key contributors to this report were Robert C. Summers, Carol E. Bray, and John C. Smith.

A handwritten signature in black ink, reading "Lawrence J. Dyckman". The signature is fluid and cursive, with the first name "Lawrence" and last name "Dyckman" clearly legible.

Lawrence J. Dyckman
Director, Natural Resources
and Environment

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The Honorable Henry Bonilla
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Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

To determine the impact that the Andean Trade Preference Act (ATPA) has had on domestic asparagus producers and consumers and the likely impact of its reauthorization, we interviewed and obtained information from representatives from the federal government, asparagus producers' associations, and research institutions. Specifically, we obtained and reviewed the annual reports prepared by the U.S. International Trade Commission (ITC) on ATPA's impact on U.S. industries and consumers and interviewed ITC staff about the basis for their conclusions. We also obtained and reviewed the model used by ITC to analyze ATPA's effect on the U.S. economy. We obtained and reviewed reports from the Office of the U.S. Trade Representative (USTR) on ATPA's operation and interviewed officials concerning its impacts. We analyzed domestic and international asparagus production and marketing data provided by the U.S. Department of Agriculture's Economic Research Service and Foreign Agricultural Service. In addition, we obtained production and marketing information from representatives of the California Asparagus Commission, Michigan Asparagus Advisory Board, Washington Asparagus Commission, and Peruvian Asparagus Institute. We reviewed studies on trade impacts from the University of California-Davis and obtained and reviewed two econometric models from Washington State University that investigated prices, production, and income in the U.S. asparagus industry. We adjusted prices in this report to 1999 dollars using the Gross Domestic Product implicit price deflator to more accurately compare prices and costs over time. Data on U.S. asparagus production and values are as of December 2000. All other data used in the report are as of December 1999, the most current available at the time of our review.

To describe the trade remedies available to domestic industries adversely affected by imports under ATPA, we reviewed the applicable provisions of ATPA and other U.S. trade legislation, and interviewed officials from ITC and USTR. We also interviewed representatives of asparagus trade associations in California, Michigan, and Washington to determine their use of these remedies. We conducted our review from September 2000 through February 2001 in accordance with generally accepted government auditing standards.

Appendix II: Tariff Rates on Asparagus Imported from Mexico Under the North American Free Trade Agreement, 1999-2008

Asparagus type and entry time	Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Fresh, January	10.5	9.3	8.1	7.0	5.8	4.6	3.5	2.3	1.1	0
Fresh, February 1 to June 30	15.0	13.3	11.6	10.0	8.3	6.6	5.0	3.3	1.6	0
Fresh, July 1 to December 31	0	0	0	0	0	0	0	0	0	0
Frozen, all year	6.0	4.5	3.0	1.5	0	0	0	0	0	0
Canned, all year	7.0	5.2	3.5	1.7	0	0	0	0	0	0
Fresh white, all year	0	0	0	0	0	0	0	0	0	0

Source: ITC.

Appendix III: Comments From the U.S. Department of Agriculture's Foreign Agricultural Service



United States
Department of
Agriculture

Farm and
Foreign
Agricultural
Services

Foreign
Agricultural
Service

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Independence
Ave, SW
Room 4965-S
Stop 1060
Washington, DC
20250-1060

March 2, 2001

Mr. Lawrence J. Dyckman
Director
Natural Resources and Environment
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Dyckman:

I am pleased to provide the Foreign Agricultural Service (FAS) response to the draft GAO report entitled, "AGRICULTURAL TRADE: Impacts of the Andean Trade Preference Act on Asparagus Producers and Consumers."

As a general observation, the report fails to adequately address the issue regarding the motivation of ATPA status for asparagus. To the extent that duty free access to the U.S. provides production alternatives to coca growing, then duty free access to the large U.S. market would be a justified trade policy action. However, asparagus is not grown in coca regions, and therefore the rationale for this program as it relates to providing production alternatives to coca has little or no agronomic merit. Further, when asked by a U.S. asparagus official, a Peruvian asparagus producer indicated that the current boom in asparagus production was not attracting workers or capital from coca regions. To the extent this is a true statement, it would tend to undermine the economic rationale of ATPA status for asparagus by providing alternative economic opportunities for coca producers or workers. However, additional investigation would have to be conducted to substantiate this statement. We are also concerned that the interests of the processing industry were not sufficiently addressed in the report.

In terms of the specific content of the report, we offer the following:

Page 2 - The report notes that "prices have risen", but neglects to clarify that while this may have occurred intermittently for fresh asparagus, it has not been the case for processed asparagus.

Page 7 - The ATPA has aided Peru in expanding its production of asparagus, which now represents that country's second largest export crop, after coffee. The report states that asparagus production accounted for over 14 percent of Peru's agricultural exports in 1999, providing employment for over 20,000 Peruvians. To what extent (if at all) the expansion of the asparagus industry can be linked to a beneficial impact on Peru's coca production is not addressed in the report.

See comment 1.

See comment 2.

See comment 3.

See comment 4.

Mr. Lawrence J. Dyckman

2

See comment 5.

See comment 6.

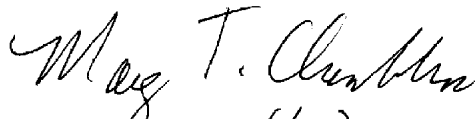
See comment 7.

Page 8 - It seems questionable to place the value of domestic production displacement resulting from the Act at "2 to 8 percent", considering the substantial decline in production and value of U.S. processed asparagus. In addition, this is extracted from a 1999 report with data used when the impact was arguably not as severe. Also, the economic impact on the growing regions vis a vis lost jobs in the industry is not addressed.

Page 10 - We are concerned that the graph's old data does not adequately convey the true impact of Peruvian asparagus on the U.S. market.

Thank you for the opportunity to respond to the draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,



Mattie R. Sharpless
Acting Administrator



The following are GAO's comments on the letter from the U.S. Department of Agriculture's Foreign Agricultural Service dated March 2, 2001.

GAO's Comments

1. We do not agree. Determining whether ATPA is meeting its intended purpose of providing alternative economic opportunities for coca producers and workers in the four Andean countries was beyond the scope of our review. However, our report does describe how asparagus production has contributed to economic development in Peru.
2. We disagree. The report provides information on both the fresh and processed sectors of the U.S. asparagus industry from 1990 to 2000. For example, figures 1, 4, 5, and 6 contain information on fresh and processed asparagus.
3. We disagree. As we reported in figure 5, the inflation-adjusted prices for fresh asparagus have trended upward from 1990 through 2000 while prices for processed asparagus remained relatively flat during this same period.
4. See comment 1.
5. ITC's most recent study estimates that ATPA displaced an estimated 2 to 8 percent of the total value of domestic fresh asparagus production from what it would have been without the act. The 1999 data used for their study were the most current information available at the time of their analysis.
6. We agree. The scope of our work did not include evaluating the economic impact on domestic growing regions.
7. We disagree. The quantity and value of domestic asparagus production data for 1999 that we used to prepare our draft report were the most current available at the time of our review. Subsequently, in January 2001, the Department of Agriculture's National Agricultural Statistics Service released its *Vegetables 2000 Summary* report. We updated our draft with the production information from that report. The updated information did not alter the results of our analyses.

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